Impact of Foreign Military Sales Case Payment Schedule Improvements on Defense Security Assistance Management System

By

David A. Rude
Defense Security Cooperation Agency
and
Nels E. Berdahl
Information Systems, Incorporated

The Defense Security Cooperation Agency (DSCA) continues to move ahead with improvements to the foreign military sales (FMS) program. DSCA Policy Memorandum 01-22 of 19 September 2001 represented the culmination of months of work by a multi-service finance Integrated Process Team (IPT) involving the Military Departments (MIL-DEPS) and Defense Finance Accounting Service-Denver (DFAS). Led by DSCA, the finance IPT policy package announced implementation of the Standby Letter of Credit (SBLC), and made several fundamental changes in payment schedules. The underlying payment schedule objective was to improve their usefulness and accuracy as a cash management tool while continuing to comply with the requirements of the *Arms Export Control Act of 1976*, as amended.

The Defense Security Assistance Management System (DSAMS) has now been modified to accommodate the policy changes prescribed in DSCA Memorandum 01-22. This article describes the changes in Letter of Offer and Acceptance (LOA) documents generated in DSAMS and provided to customers. For additional background information, readers are encouraged to review DSCA Memorandum 01-22 (including all attachments), which is posted on the DSCA website at http://www.dsca.mil under the Publications and Policy link. A separate DSCA policy memorandum amplifying key points from DSCA Policy Memorandum 01-22 and providing additional clarification, was scheduled for issuance in May 2003. DSAMS users should review the "What is New" section of the on-line *DSAMS User's Guide* (DSAMS Help) for guidance on the new functionality.

The basic DSAMS response document for countries without a SBLC is unchanged from the previous format. The term "Initial Deposit" is now used only on Letters of Intent, basic Leases, and basic cases without a Letter of Intent. While the format of the document has not changed, the calculations behind the payment schedule have changed significantly. These changes (Termination Liability and Line Level calculations) should result in payment schedules that are more closely aligned with actual cash requirements during the execution phase. A summary of those revised calculation methodologies is discussed below.

Termination liability is now calculated only against the base unit price for price element contract cost (CC). This change will adjust the dollar value subject to termination liability calculations in DSAMS. The use of contractor termination schedules is the preferred baseline document for calculating the termination liability that would apply at a given point in time for a specific FMS case. DSAMS now provides the user full capability to manually enter these termination liability values down to the subline level.

DSCA Memorandum 01-22 also calls for a fundamental shift in payment schedule construction baselines from Case to Line Level. Implementing agencies now have the ability to enter line-specific expenditure forecasts with or without termination liability, and to apply line-specific payment curves to lines with a particular execution pattern.

On occasion, the FMS customer may submit a requested payment schedule for a given case. This schedule may be based on the customer's internal budgetary allocation, reflect other constraints, or may reflect a desire to pay on an accelerated basis. When approved by the appropriate U.S. government policy organization, DSAMS now provides the case manager with the ability to enter a "customer supplied" schedule. The customer supplied schedule must be compared with a U.S. government-developed payment schedule, which means that both schedules must be constructed in DSAMS (although only an approved customer supplied schedule will appear on the response document). If a customer supplied schedule is approved for use in the FMS case, a note will be included immediately following the schedule that identifies the name of the organization approving the schedule and also the comment "The U.S. government reserves the right to bill for additional amounts if, during the execution phase, actual costs materialize at a rate that cannot be supported by the customer-based schedule." **Note:** Both the "Planned Payment Schedule" for Japan and the U.S. government-developed payment schedule will continue to appear on the response document for Japan's FMS cases.

Standby Letter of Credit

Attachment 1 of DSCA Memorandum 01-22 provides policy guidance on implementing and managing SBLCs. For countries with an implemented SBLC, the LOA response document payment schedule will be printed in a five column format as shown in Figure 1. The termination liability amounts, by quarter, represent the amount of U.S. government requirements that are covered by the SBLC. The termination liability amounts are not included in the quarterly payment or in the U.S. government financial requirements values. The columns "Quarterly" and "U.S. Government Financial Requirements" represent the incremental and cumulative values, respectively, due from the customer on that case as of a given payment date.

Figure 1
LOA for SBLC Country

(12) Other (Storage)	675
(13) Total Estimated Cost	$769,970

To assist in fiscal planning, the USG provides the following anticipated cost of this LOA:

Estimated Payment Schedule

Payment Date	Quarterly	Cumulative	Termination Liability	USG Financial Requirements
Initial Deposit	$53,568	$68,198	$14,630	$53,568
15 Sep 2003	$99,679	$165,147	$11,900	$153,247
15 Dec 2003	$57,832	$238,519	$27,440	$211,079
15 Mar 2004	$97,228	$356,179	$47,872	$308,307
15 Jun 2004	$145,605	$506,888	$52,976	$453,912
15 Sep 2004	$172,850	$649,666	$22,904	$626,762
15 Dec 2004	$107,671	$738,241	$3,808	$734,433
15 Mar 2005	$35,537	$769,970	$0	$769,970

LOA Amendments

For payment schedule revisions reflected on LOA Amendments and Modifications, the amount paid by the FMS purchaser is now shown on those documents. Figure 2 is an example of an amendment which increases the total case value, and where customer payments have been made in accordance with the previous (basic LOA) schedule.

Figure 2
Amendment which Increases Total Case Value

Estimated Cost Summary	Previous (B)	Revised
(8) Net Estimated Cost	$1,074,054	$1,269,175
(9) Packing, Crating, and Handling	0	0
(10) Administrative Charge	26,852	31,730
(11) Transportation	93	93
(12) Other	0	0
(13) Total Estimated Cost	$1,100,999	$1,300,998

To assist in fiscal planning, the USG provides the following revised anticipated costs of this LOA:

Estimated Payment Schedule

Payment Date	Quarterly	Cumulative
Previous Payments Scheduled Date (15 March 2003)		$158,238
Current USG Financial Reqirements		$309,713
Amount Received from Purchaser	$158,238	
Due with Amendment Acceptance	$151,475	$309,713
15 Dec 2003	$182,915	$492,628
15 Mar 2004	$247,527	$740,155
15 Jun 2004	$238,471	$978,626
15 Sep 2004	$92,673	$1,071,299
15 Dec 2004	$99,200	$1,170,499
15 Mar 2005	$67,400	$1,237,899
15 Jun 2005	$63,099	$1,300,998

Note: The "Due with Amendment Acceptance" reflected above includes amounts earlier for payments earlier shown as due 15 September 2003 and other requirements for the period through the payment due 15 December 2003 as shown above. Any payments made by the Purchaser that exceeds the "Amount received from Purchaser" as shown above are to be deducted from the "Due with Amendment Acceptance" amount.

Whether collections to date are equal to, exceed, or are less than the financial requirements for the next payment due on the case has a corresponding influence on remaining payments, including the "Amount Due with Amendment Acceptance." The term "Initial Deposit" is no longer used on LOA amendments. Notes immediately following the amendment payment schedule will provide information to the customer regarding the calculation of the "Amount Due with Amendment Acceptance," where appropriate.

LOA Modifications

When a modification increases the total case value, the change in financial requirements will generally be reflected in the next and/or subsequent payments in the billing cycle following implementation of the modification. Changes in active case payment schedules can be expected due to the shift from Case to Line Level calculation and also due to the new method of calculating Termination Liability.

Figure 3 illustrates a modification which decreases the total case value by $70,039. In this illustration, the customer would receive a bill in April with a payment due in June based on the previously implemented payment schedule. The "Amount Received from Purchaser" reflects payments as recorded in the Defense Integrated Financial System (DIFS) at the time the implementing agency prepared the modification. The majority ($53,208) of the total amount of the reduction is reflected in the "Current U.S. Government Financial Requirements" value. The remainder of the reduction is seen in the 15 September and 15 December payments.

Figure 3 Modification Reducing Total Case Value

Estimated Cost Summary	Previous (B)	Revised
(8) Net Estimated Cost	$2,139,416	$2,071,085
(9) Packing, Crating, and Handling	0	0
(10) Administrative Charge (Notes(s) 23)	53,486	51,778
(11) Transportation	0	0
(12) Other	0	0
(13) Total Estimated cost	$2,192,902	$2,122,863

To assist in fiscal planning, the USG provides the following revised anticipated costs of this LOA.

Estimated Payment Schedule

Payment Date	Quarterly	Cumulative
Previous Paments Scheduled Date (15 Mar 2003)		$1,267,120
Current USG Financial Requirements		$1,213,912
Amount Received from Purchaser	$1,267,120	
15 Sep 2003	688,084	$1,901,996
15 Dec 2003	$220,867	$2,122,863

Summary

Again, the goal of the new payment schedule functionality is to more closely align case payment schedules with the expected expenditure profile for the case. Customers can expect to see adjustments in payment schedules on documents constructed in the new environment (deployment at press time was scheduled for May 5, 2003). We look forward to increased customer satisfaction, and better utilization of payment schedules as an accurate predictor of financial performance, as a result of these changes.

Questions about changes in LOA, LOA Amendment and LOA Modification payment schedules should be directed to DSCA-COMPT/FMS Financial Policy. Questions regarding DSAMS training should be directed to Implementing Agency focal points, and other DSAMS-specific questions, should be forwarded to the DSAMS Help Desk.

About the Authors

David Rude is the Chief of DSCA COMPT/FMS Financial Policy and chaired the Integrated Process Team that addressed payment schedules. He has over seventeen years experience in FMS financial management.

Nels E. Berdahl is employed by Information Systems, Inc (ISI) and has provided training and consulting support to the DSAMS Program Management Office since December 1998. He is a former DISAM instructor and during his Navy career served a tour at NAVICP-OF, then known as the Navy International Logistics Control Office.